

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Rates for 2001-02
Contribution Rate for Additional Service Credit

ITEM NUMBER: 6a

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: May 3, 2001

INFORMATION: _____

PRESENTER: Rick Reed

SUMMARY

The "Contribution Rate for Additional Service Credit" is used to determine the contributions due from a member of the Defined Benefit (DB) Program for the purchase of service credit for certain approved leaves of absence or service that has not been credited in the System. Section 22117 of the Education Code specifies that "Contribution rate for additional service credit" means the contribution rate adopted by the board as a plan amendment with respect to the DB Program for the purchase of service credit. This rate is based on the most recent valuation of the plan with respect to the DB Program, and is increased to include any subsequently required contribution rates designated for funding subsequent allowance increases.

At the October 10, 1991 Board Meeting, the Teachers' Retirement Board (Board) adopted the recommendations of the "Report on Benefit Structure Equity of the California State Teachers' Retirement System (CalSTRS) as Required Under SB 2469." As a result of the recommendation under Issue 10 of the Study, the base for the Contribution Rate for Additional Service Credit was changed from the 40-year funding rate to the Normal Cost Rate. The Normal Cost Rate is based on the cost of crediting service for the average ages of all members.

The Actuarial Valuation of the CalSTRS DB Program as of June 30, 2000 is being presented to the Board at the May Regular Meeting following the Benefits and Services Committee meeting. The Normal Cost Rate identified in the June 30, 2000 actuarial valuation, is 16.001 percent. The increase in normal cost rate that funds allowance increases enacted since the June 30, 2000 valuation date is 0.422 percent. Based on the Normal Cost Rate and the cost of the subsequent increases, the Contribution Rate for Additional Service Credit would be 16.423 percent for the 2001-2002 fiscal year. This is an increase from the rate of 15.664 percent adopted for the 2000-2001 fiscal year.

RECOMMENDATION

The staff recommends that the Benefits and Services Committee recommend to the Teachers' Retirement Board that the Board adopt a Contribution Rate for Additional Service Credit of 16.423 percent for the 2001-2002 fiscal year, contingent upon the adoption by the Board of the Actuarial Valuation as of June 30, 2000.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Contribution Rate for
Additional Service Credit for the 2001-02 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Board adopt the Contribution Rate for Additional Service Credit to be used as the contribution rate for the purchase of permissive service credit, and

WHEREAS, on October 10, 1991, the Teachers' Retirement Board adopted the recommendations of the "Report on Benefit Structure Equity of the California State Teachers' Retirement System as Required Under SB 2469," which recommended that the Contribution Rate for Additional Service Credit be based on the Normal Cost Rate of the System, and

WHEREAS, based on the June 30, 2000 Actuarial Valuation, including the impact of benefit enhancements enacted after the June 30, 2000 valuation date, the Normal Cost Rate of the current benefit program is 16.423 percent of payroll; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt a Contribution Rate for Additional Service Credit of 16.423 percent for the 2001-02 fiscal year, contingent upon the adoption by the Board of the Actuarial Valuation as of June 30, 2000.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on May 3, 2001

JAMES D. MOSMAN
Chief Executive Officer

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Rates for 2001-02
Employer Contribution Rate for Elected Officials
of Employee Organizations

ITEM NUMBER: 6b

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: May 3, 2001

INFORMATION:

PRESENTER: Rick Reed

SUMMARY

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years. In 1999-2000, 12 individuals were credited with service under this program.

During the leave of absence, the member contributes the amount that would have been contributed if he or she had continued to perform service in the position on a full-time basis. The employer contributes an amount based upon the salary that the member would have been paid if employed full-time. During the leave of absence, the employer contributes at the Employer Contribution Rate for Elected Officials, as specified by the Teachers' Retirement Board (Board) under the provisions of Section 22711 of the Education Code.

Subsequent to the June 30, 1981 actuarial valuation, the Board adopted a policy of 40-year funding. The actuarial valuation as of June 30, 1991, reflected a reduction from 40 years in the estimated number of years required to amortize the unfunded actuarial obligation due to passage of the Elder Full Funding Act. In recognition of this reduced funding period, staff recommended that the Board revise the policy to base the Employer Contribution Rate for Elected Officials of Employee Organizations upon the Total Cost Rate, as identified in the most recent actuarial valuation, minus the member contribution rate. This method coincides with the method used in previous years, and produced a corresponding contribution rate.

At the July 8, 1999 Benefits and Services Committee meeting the Board adopted the staff recommendation to adopt a policy to establish the Employer Contribution Rate for Elected Officials of Employee Organizations as the greater of (a) the Total Cost Rate, as identified in the most recent actuarial valuation, minus the member contribution rate, or, (b) the employer contribution rate for creditable compensation specified in Sections 22950 and 22951 of the Education Code.

The Actuarial Valuation of the California State Teachers' Retirement System Defined Benefit Program as of June 30, 2000 is to be presented to the Board at the May Regular Meeting following the Benefits and Services Committee meeting. The Total Cost Rate as of June 30, 2000 is equal to 13.301 percent of member payroll. However, this figure does not include any subsequently required contribution rates changes needed to fund subsequent allowance increases. The cost of the benefit enhancements that were enacted subsequent to the June 30, 2000 valuation date is an additional 2.090 percent of member payroll. Therefore, the total cost of the current benefit program is equal to 15.391 percent of member payroll.

The Total Cost Rate, however, reflects the amortization of the actuarial surplus identified in the June 30, 2000 valuation. Including the amortization of an actuarial surplus in determining the cost of accruing additional service credit understates the true impact of acquiring such credit on the Defined Benefit (DB) Program. Under those circumstances, the Normal Cost Rate, currently equal to 16.423 percent, would more accurately reflect the cost of additional service credit on the DB Program.

To fully compensate the DB Program for the cost of acquiring service credit, therefore, the contribution rate should equal the greater of (a) the Total Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution rate, (b) the Normal Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution rate, or (c) the employer contribution rate for creditable compensation specified in Sections 22950 and 22951 of the Education Code. Given the actuarial valuation to be adopted by the Board, the Normal Cost Rate, increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution rate, would result in the highest rate.

Subtracting the 8.00 percent member contribution rate from the Normal Cost Rate increased to include the 2000 benefit enhancements, would result in an employer contribution rate of 8.423 percent for service credit granted for a leave of absence by an employee to serve as an elected official of an employee organization. This is greater than the 8.25 percent employer contribution rate for creditable compensation specified in Sections 22950 and 22951 of the Education Code that employer's pay when members are performing their normal duties. Therefore, the Employer Contribution Rate for Elected Officials of Employee Organizations would be 8.423 percent. This will result in an increase from the rate of 8.25 percent adopted for the 2000-01 fiscal year.

RECOMMENDATION

Staff recommends that the Benefits and Services Committee recommend to the Board that the Board adopt a policy to establish the Employer Contribution Rate for Elected Officials of Employee Organizations as the greater of (a) the Total Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates

designated for funding subsequent allowance increases, minus the member contribution (b) the Normal Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution rate, or (c) the employer contribution rate for creditable compensation specified in Sections 22950 and 22951 of the Education Code. Staff further recommends that the Benefits and Services Committee recommend to the Board that the Board adopt an Employer Contribution Rate of 8.423 percent for Elected Officials of Employee Organizations for the 2001-02 fiscal year contingent upon the adoption by the Board of the Actuarial Valuation as of June 30, 2000.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Employer Contribution Rate for
Elected Officials for the 2001-02 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for Elected Officials of Employee Organizations; and

WHEREAS, Section 87768.5 of the Education Code requires that retirement contributions for a compensated leave of absence for service as an elected officer of a community college district employee organization include the amount necessary to pay any unfunded liability cost for the retirement plan; and

WHEREAS, Section 22950 of the Education Code requires employers to contribute monthly to the Teachers' Retirement Fund 8 percent of creditable compensation; and

WHEREAS, Section 22951 of the Education Code requires employers to contribute monthly to the Teachers' Retirement Fund an additional .25 percent of creditable compensation; and

WHEREAS, based on the June 30, 2000 Actuarial Valuation the total cost rate minus the member contribution rate is 7.776 percent of payroll for the current benefit program, which is less than the statutory employer contribution rate of 8.25 percent, and

WHEREAS, based on the June 30, 2000 Actuarial Valuation the normal cost rate minus the member contribution rate is 8.423 percent of payroll for the current benefit program, which is greater than the statutory employer contribution rate of 8.25 percent, and more accurately reflects the true additional impact of accruing service credit when an actuarial surplus exists in the Defined Benefit Program ; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt a policy to establish the Employer Contribution Rate for Elected Officials of Employee Organizations as the greater of (a) the Total Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution (b) the Normal Cost Rate, as identified in the most recent actuarial valuation, and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases, minus the member contribution rate, or (c) the employer contribution rate for creditable compensation specified in Sections 22950 and 22951 of the Education Code, and be it further

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt the Employer Contribution Rate of 8.43 percent for compensated leaves of absence for service as Elected Officials of Employee Organizations during the 2001-02 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on May 3, 2001

JAMES D. MOSMAN
Chief Executive Officer

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Rates for 2001-02
Revised Employer Contribution Rate for the
Reduced Workload Program

ITEM NUMBER: 6c

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: May 3, 2001

INFORMATION:

PRESENTER: Rick Reed

SUMMARY

The "Employer Contribution Rate for the Reduced Workload Program" is used to charge the employer for the service credit granted to a member who is a participant in the Reduced Workload Program. Under this program, the member receives a full year of service credit, even though the member has reduced his or her workload from full-time to part-time.

The member contributes the amount that he or she would have contributed if employed full-time. The employer contributes an amount based upon the salary the member would have been paid if employed full-time in the position during that year. For the period during which the member is not required to work to receive service credit, the employer is required to contribute at the Employer Contribution Rate for the Reduced Workload Program, as specified by the Teachers' Retirement Board (Board) under the provisions of Section 22713 of the Education Code.

Previously, the Employer Contribution Rate for the Reduced Workload Program was based on the Total Cost Rate, as identified in the most recent actuarial valuation. This was done to reflect the higher cost of crediting service at ages near retirement because the member must be 55 years of age to participate in this program. In 1998, the Board adopted the Consulting Actuary's recommendation to charge the regular 8.25 percent employer contribution rate, which in previous years, when combined with the member contributions, was sufficient to cover the costs of this benefit.

Last month, the Board continued this policy and adopted the 8.25 percent regular employer contribution rate to charge employers under this program. However, because the normal cost rate, including the cost of the benefit enhancements enacted in 2000, is 16.423 percent, charging the employer 8.25 percent would no longer cover the total cost of this benefit. Therefore, in order to ensure that this program does not result in a net cost to the Defined Benefit Program, the Board would need to change its policy to be the greater of (1) the regular employer contribution rate of 8.25 percent and (2) the normal cost rate less the employee contribution rate. Adopting this new policy would result in an employer contribution rate for the Reduced Workload Program of 8.423 percent for 2001-02.

RECOMMENDATION

The staff recommends that the Benefits and Services Committee recommend to the Board that the Board change its existing policy to charge the greater of (1) the Employer Contribution Rate of 8.25 percent and (2) the Normal Cost Rate less the Employee Contribution Rate for service credit granted under the Reduced Workload Program during the 2001-02 fiscal year. For fiscal 2001-02, the rate charged employers under the Reduced Workload Program would be 8.423 percent.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of a Revised Employer Contribution Rate
for the Reduced Workload Program
for the 2001-02 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for the Reduced Workload Program, and

WHEREAS, the Teachers' Retirement Board adopted a policy on June 4, 1998, as recommended by the Consulting Actuary, to set the Employer Contribution Rate for the Reduced Workload Program at the current employer contribution rate, and

WHEREAS, the rate charged under existing policy does not cover the current cost of the program to the Defined benefit Program; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board change its existing policy to charge the greater of (1) the Employer Contribution Rate of 8.25 percent and (2) the Normal Cost Rate less the Employee Contribution Rate for participation in the Reduced Workload Program during the 2001-02 fiscal year, and

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board charge 8.423 percent, which is the Normal Cost Rate less the Employee Contribution Rate of eight percent for participation in the Reduced Workload Program during the 2001-02 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on May 3, 2001

JAMES D. MOSMAN
Chief Executive Officer